

Q & A

Q. Who is the Illinois State Board of Investment (ISBI)?

A. The Illinois State Board of Investment is charged with investing the retirement assets of the State Retirement Systems (SRS). This includes each of the three retirement systems that cover state employees, judges, and General Assembly members. The Board has five members appointed by the governor and four ex-officio members. The assets total over \$10.4 billion for the 150,000 current and retired state employees.

Q. What is ISBI's role in this Plan?

A. State statute provides that the Illinois State Board of Investment shall have the authority to invest funds, subject to various requirements and restrictions including the fiduciary duties as outlined. In short, all deferrals will be invested in a manner approved by the Board. The statute delegates to the Board the responsibility of approving or disapproving any changes in the Plan and reviewing any and all proposed investment offerings.

Q. What is the role of Central Management Services?

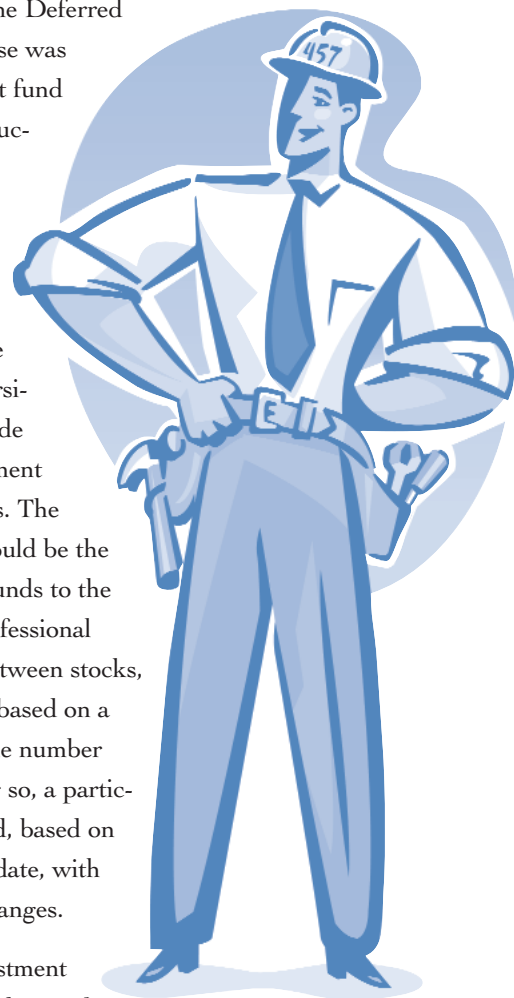
A. Central Management Services (CMS) has the responsibility to administer the Plan under the general oversight of the ISBI. This includes all aspects of daily administration including, but not limited to, methods of enrolling, deferring, maintenance of participant accounts, and the distribution of participant accounts.

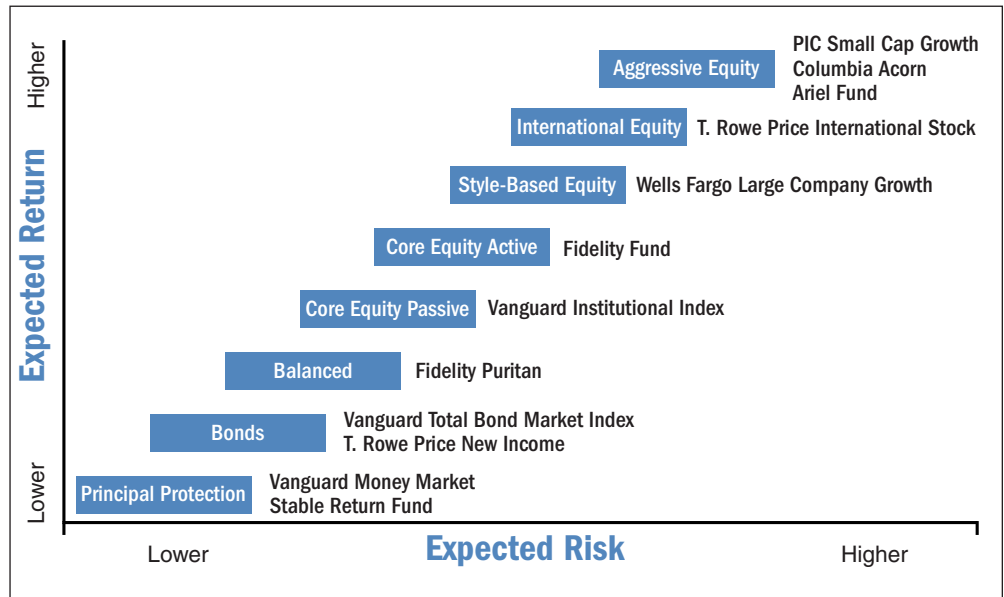
Investment Options Expected to Change

Further changes to the investment options of the Deferred Compensation Plan are being explored as a result of the independent consultant's review. As you may recall, the consulting firm Deloitte & Touche was hired to perform a thorough review of the Deferred Compensation Plan. The purpose was to provide an analysis of current fund performance and the overall structure of the investment lineup.

As stated in last quarter's newsletter, a preliminary report presented by Deloitte & Touche stated that there may be an opportunity to increase diversification opportunities and provide options that simplify the investment decision process for participants. The most prominent opportunity would be the addition of a series of lifestyle funds to the Plan. Lifestyle funds have a professional manager that allocates assets between stocks, bonds, and money instruments based on a participant's risk tolerance or the number of years to retirement. By doing so, a participant could choose just one fund, based on his or her projected retirement date, with no need to make any further changes.

The Illinois State Board of Investment (ISBI) has also proposed the addition of a large-cap value fund to add to the diversification opportunities available to participants. ISBI's investment philosophy maintains that value-oriented investing over the longer term provides an opportunity to enhance the returns of a portfolio. Currently the Plan has three funds in the large-cap category, but none in the value style box. Current large-cap funds include the Wells Fargo Large Company Growth Fund, the Vanguard Institutional Index, a core passively managed fund, and the Fidelity Fund, a blended growth and value fund that is actively managed.





Funds are placed in categories based on analysis conducted by Deloitte & Touche.

Definitions

Growth Style Equity – In general, a growth-oriented fund will hold the stocks of companies that the portfolio manager believes will increase earnings faster than the rest of the market. The value of a stock can go up or down in price. The potential return and risk are highest in this category of investments.

Value Style Equity – A value-oriented fund contains mostly stocks the manager thinks are currently undervalued in price and will eventually see their worth recognized by the market. The value approach carries the risk that a stock judged to be undervalued may actually be appropriately priced.

Core Equity – A mix of growth stocks and value stocks in a portfolio that exhibits characteristics of both.

Large-Cap Equity Fund – A portfolio of stocks in which the average value of each company in the fund is over \$5 billion.*

Mid-Cap Equity Fund – A portfolio of stocks in which the average value of each company in the fund is between \$1 billion and \$5 billion.*

Small-Cap Equity Fund – A portfolio of stocks in which the average value of each company in the fund is less than \$1 billion.*

Investment Options Expected to Change

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A third potential change to the investment lineup is under further review at this time. At question is if the Fidelity Fund is the best possible investment option in the core category for an actively managed fund. Therefore, a search will be conducted to see if there are better alternatives to replace this fund in the Plan's lineup.

These actions further the outreaching goal of the Plan to provide you with the best mix of options to fit your retirement portfolio needs. You will be kept abreast of further developments in future newsletters.

* Source: Morningstar 2004.

2005 Maximum Contribution Levels

The maximum contribution limit will increase for the 2005 tax year. The new limit will be the lesser of 100% of taxable salary or \$14,000. The maximum deferral amount will increase by \$1,000 each year until it reaches \$15,000. At that point any increase will be tied to the consumer price index (CPI). Remember, if you are participating in a Section 457 along with a 403(b) or 401(k), you have no coordinated deferral limit. That means you may contribute up to the maximum in both plans.

There are also two provisions of catch-up to consider, age 50 and the regular catch-up. The age 50 catch-up is available to participants beginning in the tax year they attain age 50 and older. There is no application or approval process to enroll. The maximum additional age 50 catch-up amount is \$4,000 for tax year 2005. Therefore, an employee at least 50 years old may defer a total of \$18,000 for the new tax year.

A participant must sign up for the regular catch-up provision through an application process with the deferred compensation office. This is to ensure compliance with federal guidelines. First, the participant must have underutilized deferrals from previous years to "catch up." For example, an employee deferring at the maximum rate since 1979 or from the moment of becoming a state employee would have no amounts to apply toward catch-up. A second condition is that an employee be within four years of normal retirement age. The catch-up period lasts for three years prior to the year that a participant may retire with unreduced benefits. Applicants cannot participate in the year in which they retire.

In order to change your deferral amount for the next tax year, simply fill out a Deferred Compensation Change Form. It is important to note that your tax year may differ from the calendar year when deferring a specific dollar amount within the year. Legislators are paid monthly, in the month earned, and January will be the first pay period of the taxable year. If you are not a legislator but paid monthly, the December pay period will be the first of the next taxable year. If you are paid semimonthly, the December 16-31 pay period will be your first for the taxable year 2005. If paid biweekly, you will receive either 24 or 26 pay-checks each year, and you will need to see your agency liaison for assistance in determining the first pay period of the taxable year.

A Deferred Compensation Change Form is available from your agency liaison, or you can contact this office directly at 217-782-7006. If you have access to our Web site, you may download a form at www.state.il.us/cms/employee/defcom.

Telephone Numbers

Deferred Compensation:

Plan Rules/Options Information

800.442.1300

217.782.7006

TDD/TTY: 800.526.0844

Internet: www.state.il.us/cms/employee/defcom

Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value

Information and Investment Changes: 888.457.5770

TDD/TTY: 800.521.0325

Internet Access: 800.541.3022

Internet: rps.troweprice.com

Fund Performance:

Columbia Acorn Fund: 800.922.6769

Ariel Fund: 800.292.7435

Fidelity Funds: 800.544.8888

Provident Investment Counsel: 800.618.7643

Stable Return Fund/INVESCO: 800.228.7466

T. Rowe Price Funds: 800.922.9945

Vanguard Funds: 800.523.8066

Wells Fargo: 800.222.8222

Income and Price Information

Third Quarter 2004

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity	Vanguard Inst. Index ³	Wells Fargo Lg. Company Growth	Columbia Acorn	Ariel	T. Rowe Price Int'l Stock	PIC Small Cap Growth
07/01/04	\$10.11	\$8.91	\$18.60	\$28.53	\$103.44	\$44.50	\$24.33	\$50.09	\$11.65	\$15.47
07/02/04	\$10.16	\$8.95	\$18.59	\$28.44	\$103.11	\$44.35	\$24.31	\$49.99	\$11.66	\$15.41
07/06/04	\$10.15	\$8.94	\$18.51	\$28.25	\$102.27	\$43.60	\$24.00	\$49.51	\$11.51	\$15.05
07/07/04	\$10.15	\$8.94	\$18.54	\$28.31	\$102.49	\$43.47	\$24.05	\$49.47	\$11.58	\$15.01
07/08/04	\$10.15	\$8.95	\$18.45	\$28.10	\$101.65	\$43.02	\$23.75	\$48.94	\$11.52	\$14.79
07/09/04	\$10.16	\$8.95	\$18.50	\$28.20	\$101.99	\$43.27	\$23.86	\$49.06	\$11.60	\$14.87
07/12/04	\$10.17	\$8.96	\$18.51	\$28.20	\$102.14	\$43.31	\$23.82	\$48.92	\$11.61	\$14.76
07/13/04	\$10.15	\$8.94	\$18.52	\$28.19	\$102.21	\$43.25	\$23.77	\$49.03	\$11.55	\$14.77
07/14/04	\$10.14	\$8.94	\$18.48	\$28.14	\$101.88	\$42.81	\$23.74	\$49.02	\$11.54	\$14.70
07/15/04	\$10.14	\$8.94	\$18.44	\$27.98	\$101.44	\$42.42	\$23.74	\$48.96	\$11.42	\$14.73
07/16/04	\$10.20	\$8.98	\$18.45	\$27.86	\$100.96	\$41.93	\$23.58	\$48.68	\$11.51	\$14.57
07/19/04	\$10.19	\$8.98	\$18.45	\$27.78	\$100.91	\$41.87	\$23.52	\$48.60	\$11.50	\$14.46
07/20/04	\$10.15	\$8.95	\$18.48	\$27.96	\$101.63	\$42.51	\$23.77	\$49.16	\$11.45	\$14.72
07/21/04	\$10.14	\$8.93	\$18.31	\$27.61	\$100.28	\$41.77	\$23.34	\$48.36	\$11.27	\$14.34
07/22/04	\$10.15	\$8.95	\$18.32	\$27.68	\$100.55	\$41.91	\$23.20	\$48.18	\$11.31	\$14.38
07/23/04	\$10.16	\$8.95	\$18.24	\$27.44	\$99.58	\$41.36	\$22.92	\$47.75	\$11.12	\$14.16
07/26/04	\$10.14	\$8.94	\$18.23	\$27.38	\$99.38	\$41.27	\$22.73	\$47.38	\$11.05	\$13.97
07/27/04	\$10.09	\$8.90	\$18.32	\$27.71	\$100.37	\$42.03	\$23.06	\$47.85	\$11.07	\$14.31
07/28/04	\$10.09	\$8.90	\$18.36	\$27.71	\$100.44	\$41.92	\$23.04	\$47.46	\$11.09	\$14.14
07/29/04	\$10.11	\$8.91	\$18.41	\$27.79	\$100.93	\$42.29	\$23.28	\$47.82	\$11.13	\$14.37
07/30/04	\$10.15	\$8.95	\$18.44	\$27.82	\$101.05	\$42.26	\$23.31	\$47.87	\$11.18	\$14.43
08/02/04	\$10.16	\$8.96	\$18.48	\$27.94	\$101.50	\$42.31	\$23.37	\$48.35	\$11.16	\$14.32
08/03/04	\$10.17	\$8.97	\$18.45	\$27.84	\$100.87	\$41.87	\$23.12	\$47.90	\$11.18	\$14.00
08/04/04	\$10.17	\$8.96	\$18.42	\$27.77	\$100.79	\$41.89	\$22.97	\$47.89	\$11.08	\$13.86
08/05/04	\$10.18	\$8.97	\$18.25	\$27.32	\$99.15	\$41.08	\$22.62	\$47.40	\$11.00	\$13.60
08/06/04	\$10.26	\$9.04	\$18.12	\$26.91	\$97.62	\$40.31	\$22.26	\$46.80	\$10.95	\$13.22
08/09/04	\$10.25	\$9.03	\$18.13	\$26.96	\$97.73	\$40.27	\$22.27	\$46.88	\$10.93	\$13.19
08/10/04	\$10.23	\$9.01	\$18.26	\$27.29	\$99.00	\$40.94	\$22.65	\$47.46	\$11.08	\$13.47
08/11/04	\$10.24	\$9.02	\$18.25	\$27.24	\$98.76	\$40.63	\$22.54	\$47.26	\$10.97	\$13.36
08/12/04	\$10.25	\$9.03	\$18.11	\$26.95	\$97.61	\$40.17	\$22.24	\$46.84	\$10.89	\$13.08
08/13/04	\$10.27	\$9.04	\$18.11	\$27.00	\$97.76	\$40.26	\$22.29	\$46.80	\$10.96	\$13.03
08/16/04	\$10.25	\$9.03	\$18.28	\$27.34	\$99.10	\$40.97	\$22.61	\$47.34	\$11.04	\$13.26
08/17/04	\$10.27	\$9.05	\$18.31	\$27.34	\$99.33	\$41.24	\$22.66	\$47.54	\$11.03	\$13.38
08/18/04	\$10.26	\$9.04	\$18.45	\$27.64	\$100.58	\$41.80	\$22.97	\$48.27	\$11.10	\$13.69
08/19/04	\$10.27	\$9.05	\$18.42	\$27.56	\$100.22	\$41.59	\$22.94	\$47.89	\$11.16	\$13.67
08/20/04	\$10.26	\$9.04	\$18.52	\$27.75	\$100.88	\$41.88	\$23.23	\$48.80	\$11.11	\$13.96
08/23/04	\$10.24	\$9.02	\$18.46	\$27.68	\$100.64	\$41.91	\$23.06	\$48.70	\$11.16	\$13.90
08/24/04	\$10.24	\$9.02	\$18.47	\$27.69	\$100.69	\$42.02	\$23.07	\$48.83	\$11.10	\$13.87
08/25/04	\$10.25	\$9.03	\$18.57	\$27.92	\$101.50	\$42.54	\$23.22	\$49.16	\$11.19	\$14.05
08/26/04	\$10.27	\$9.04	\$18.59	\$27.94	\$101.51	\$42.57	\$23.22	\$49.12	\$11.22	\$13.97
08/27/04	\$10.27	\$9.04	\$18.62	\$27.99	\$101.77	\$42.57	\$23.32	\$49.24	\$11.26	\$14.07
08/30/04	\$10.28	\$9.06	\$18.55	\$27.79	\$100.99	\$42.14	\$23.11	\$48.85	\$11.22	\$13.86
08/31/04	\$10.31	\$9.08	\$18.63	\$27.92	\$101.46	\$42.23	\$23.29	\$49.17	\$11.24	\$13.91
09/01/04	\$10.31	\$9.08	\$18.64	\$27.97	\$101.64	\$42.34	\$23.46	\$49.45	\$11.28	\$14.03
09/02/04	\$10.28	\$9.06	\$18.76	\$28.26	\$102.79	\$43.05	\$23.68	\$49.97	\$11.39	\$14.20
09/03/04	\$10.24	\$9.03	\$18.13	\$28.17	\$102.36	\$42.67	\$23.55	\$49.76	\$11.25	\$14.12
09/07/04	\$10.26	\$9.04	\$18.24	\$28.37	\$103.07	\$42.92	\$23.73	\$50.27	\$11.41	\$14.25
09/08/04	\$10.30	\$9.07	\$18.20	\$28.26	\$102.62	\$42.77	\$23.66	\$49.90	\$11.44	\$14.12
09/09/04	\$10.28	\$9.06	\$18.20	\$28.25	\$102.82	\$42.85	\$23.80	\$50.08	\$11.32	\$14.27
09/10/04	\$10.29	\$9.07	\$18.24	\$28.34	\$103.32	\$43.31	\$23.97	\$50.16	\$11.40	\$14.45
09/13/04	\$10.30	\$9.08	\$18.27	\$28.37	\$103.53	\$43.49	\$24.11	\$50.54	\$11.48	\$14.59
09/14/04	\$10.31	\$9.09	\$18.31	\$28.43	\$103.76	\$43.72	\$24.09	\$50.47	\$11.51	\$14.59
09/15/04	\$10.29	\$9.07	\$18.22	\$28.22	\$103.03	\$43.22	\$23.95	\$50.32	\$11.35	\$14.49
09/16/04	\$10.34	\$9.11	\$18.30	\$28.29	\$103.32	\$43.18	\$24.15	\$50.70	\$11.41	\$14.62
09/17/04	\$10.31	\$9.09	\$18.34	\$28.41	\$103.79	\$43.24	\$24.15	\$50.85	\$11.46	\$14.62
09/20/04	\$10.34	\$9.11	\$18.27	\$28.20	\$103.20	\$43.10	\$24.11	\$50.39	\$11.44	\$14.58
09/21/04	\$10.34	\$9.12	\$18.35	\$28.36	\$103.85	\$43.34	\$24.33	\$50.75	\$11.53	\$14.76
09/22/04	\$10.36	\$9.13	\$18.20	\$27.97	\$102.41	\$42.59	\$23.99	\$50.10	\$11.43	\$14.53
09/23/04	\$10.34	\$9.12	\$18.12	\$27.86	\$101.95	\$42.58	\$23.99	\$50.08	\$11.42	\$14.52
09/24/04	\$10.33	\$9.11	\$18.15	\$27.91	\$101.67	\$42.51	\$24.06	\$50.24	\$11.37	\$14.50
09/27/04	\$10.34	\$9.12	\$18.09	\$27.74	\$101.07	\$42.10	\$23.84	\$49.84	\$11.33	\$14.29
09/28/04	\$10.34	\$9.12	\$18.16	\$27.92	\$101.69	\$42.33	\$24.06	\$50.16	\$11.34	\$14.44
09/29/04	\$10.31	\$9.10	\$18.17	\$28.05	\$102.13	\$42.72	\$24.27	\$50.45	\$11.37	\$14.61
09/30/04	\$10.29	\$9.09	\$18.15	\$28.09	\$102.11	\$42.73	\$24.35	\$50.62	\$11.45	\$14.65

¹ New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 32 days were credited for July, 30 days were credited for August, and 30 days were credited for September.

² Puritan declared a distribution of \$0.58 payable September 3, 2004, to shareholders of record on September 2, 2004, using a share value of \$18.15.

³ Vanguard Institutional Index Fund declared a distribution of \$0.44 payable September 24, 2004, to shareholders of record on September 23, 2004, using a share value of \$101.67.